

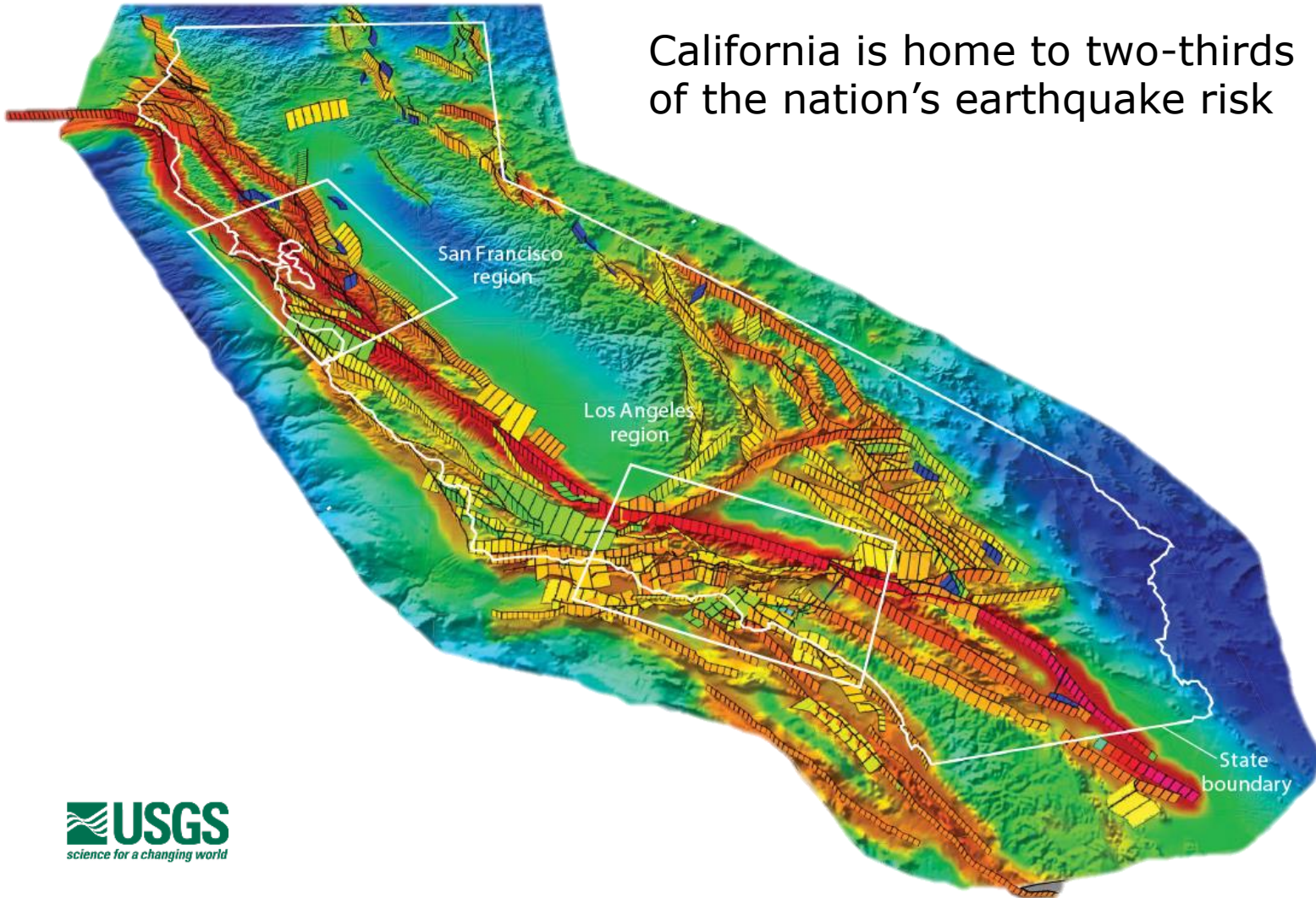


## **Concept: Establishing a Sustainable Revenue Stream to Support Resiliency**

June 29, 2018

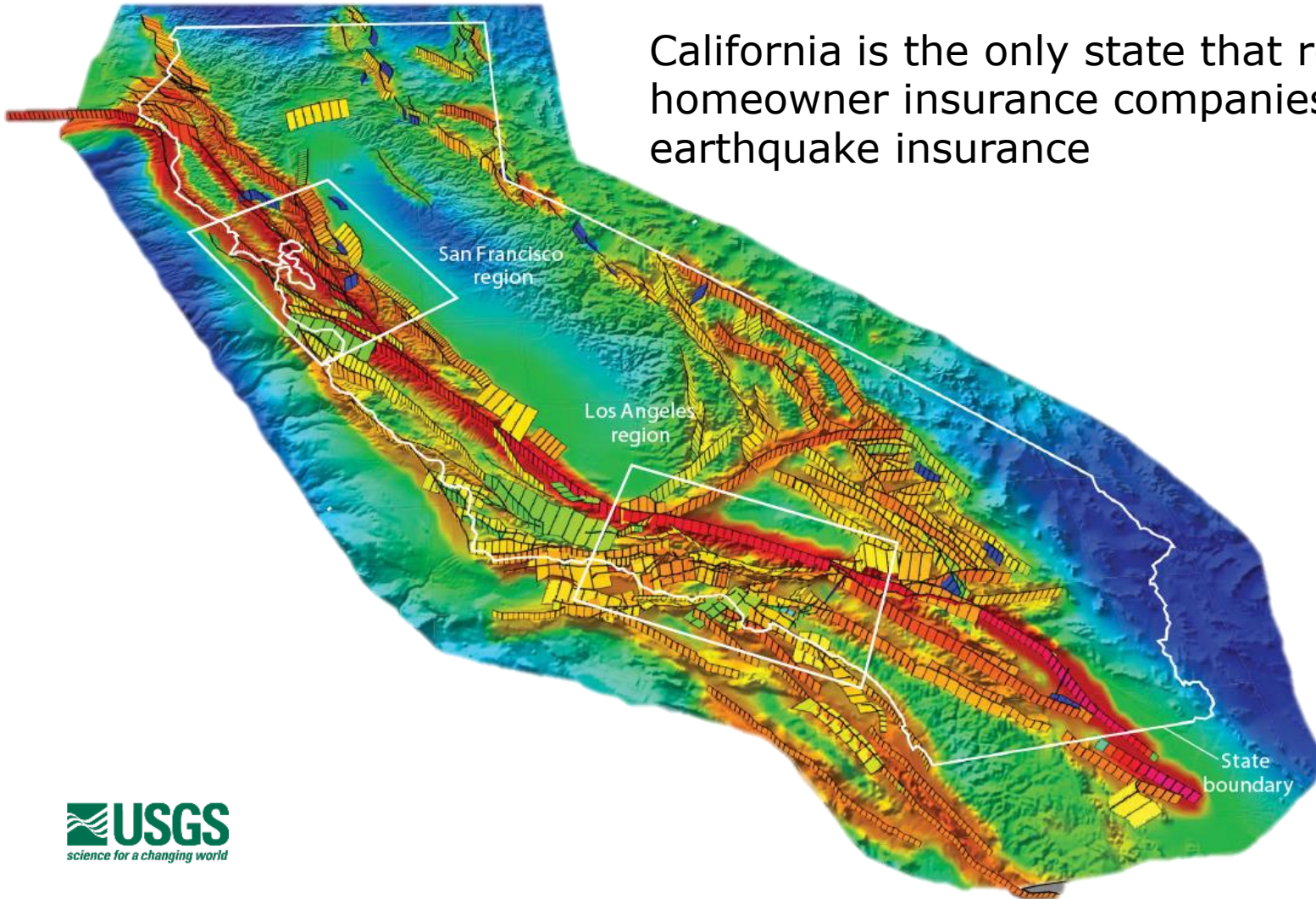
# California is Earthquake Country

California is home to two-thirds of the nation's earthquake risk



# Mandatory Offer of Earthquake Insurance

California is the only state that requires homeowner insurance companies to offer earthquake insurance



# 1994: Northridge Earthquake



January 17, 1994  
M6.7

**Total Property Damage** ➤ **\$40 Billion**

**Residential** ➤➤ **\$20 Billion**

**Insured Residential** ➤➤➤ **\$10 Billion**

**Aftermath:** most insurance companies stopped writing Homeowners insurance

**THE STRENGTH  
TO REBUILD®**



# **CEA: Publicly Managed and Privately Financed**

GOVERNING BOARD: **Governor**

**Insurance Commissioner**

**State Treasurer**

Non Voting: Assembly Speaker and Senate Rules Chair

PRIVATELY FINANCED: **1,046,000 Policyholders**

MISSION: **Educate**

**Mitigate**

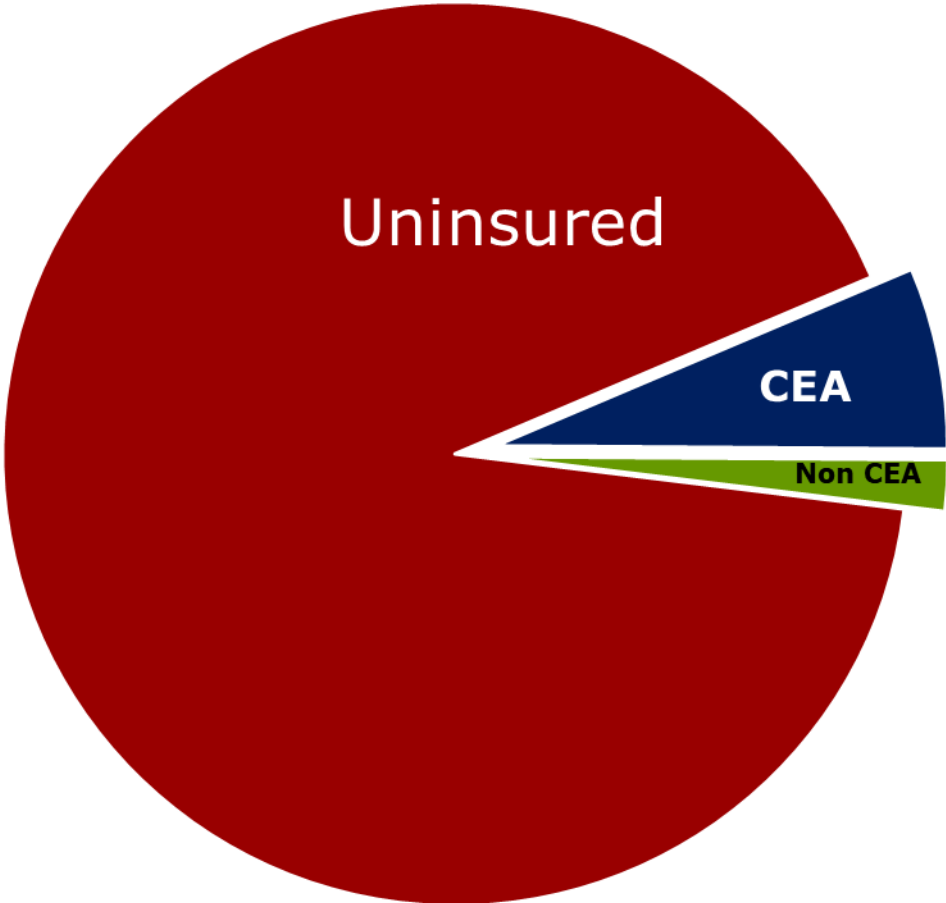
**Insure**

**A not-for-profit provider of residential earthquake insurance**

# CEA Policies in Force

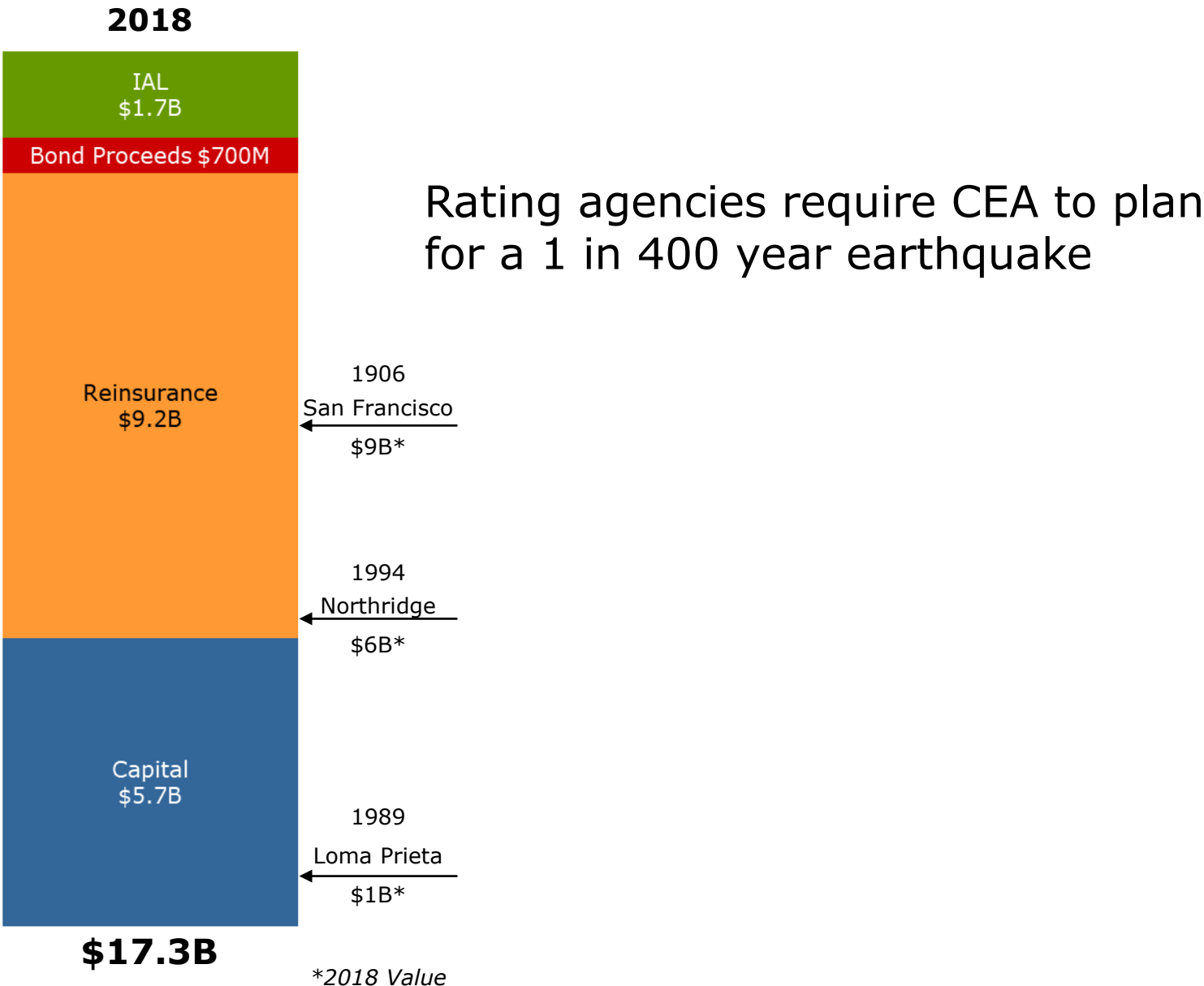


**However: 90% of California households remain uninsured for earthquake damage.**

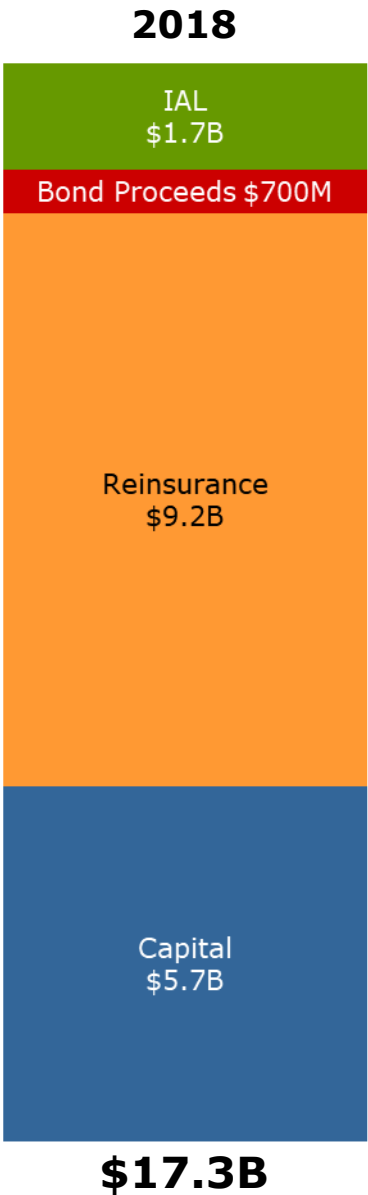


14 million California households

# CEA Claim Paying Capacity: 1 in 400 Years



# CEA Claim Paying Capacity: 1 in 400 Years



This requires CEA to purchase a tremendous amount of “reinsurance”

Since CEA’s Inception in 1996:

CEA policyholder premium: **\$10.9B**

CEA reinsurance premium: **\$4.3B**

Reinsurance claims paid to CEA: **\$250,000**

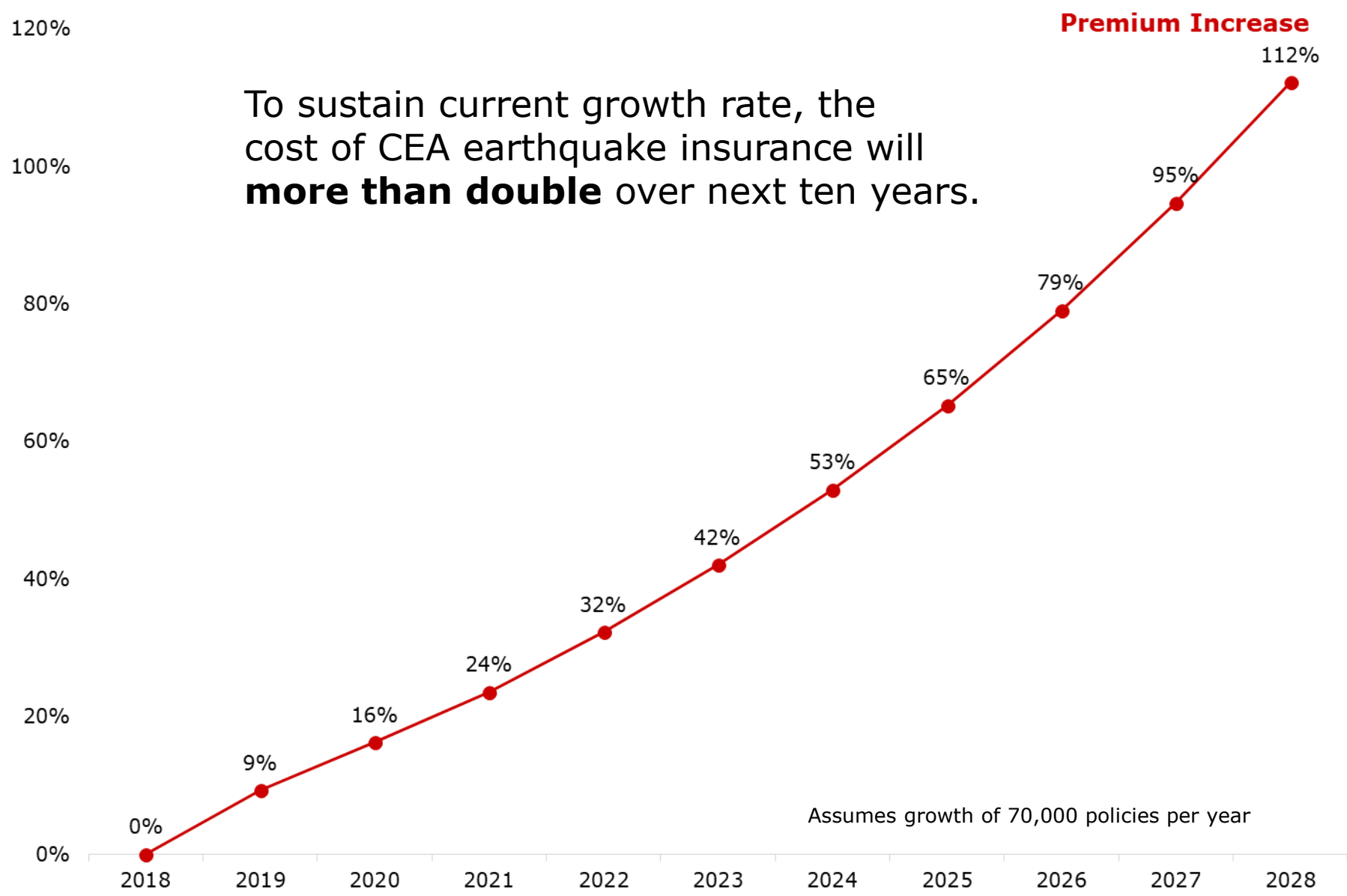
2018 Projected Reinsurance Expenses: **\$395M**

# Current Growth Rate Will Force Huge Increase in Claim-Paying Capacity

Claim Paying  
Capacity (in \$B)



# Current Growth Rate Will Force Huge Increase in CEA Premium



# Most private insurance companies plan for 1 in 250 year earthquake

Standard for private  
insurance companies

**1 in 250**

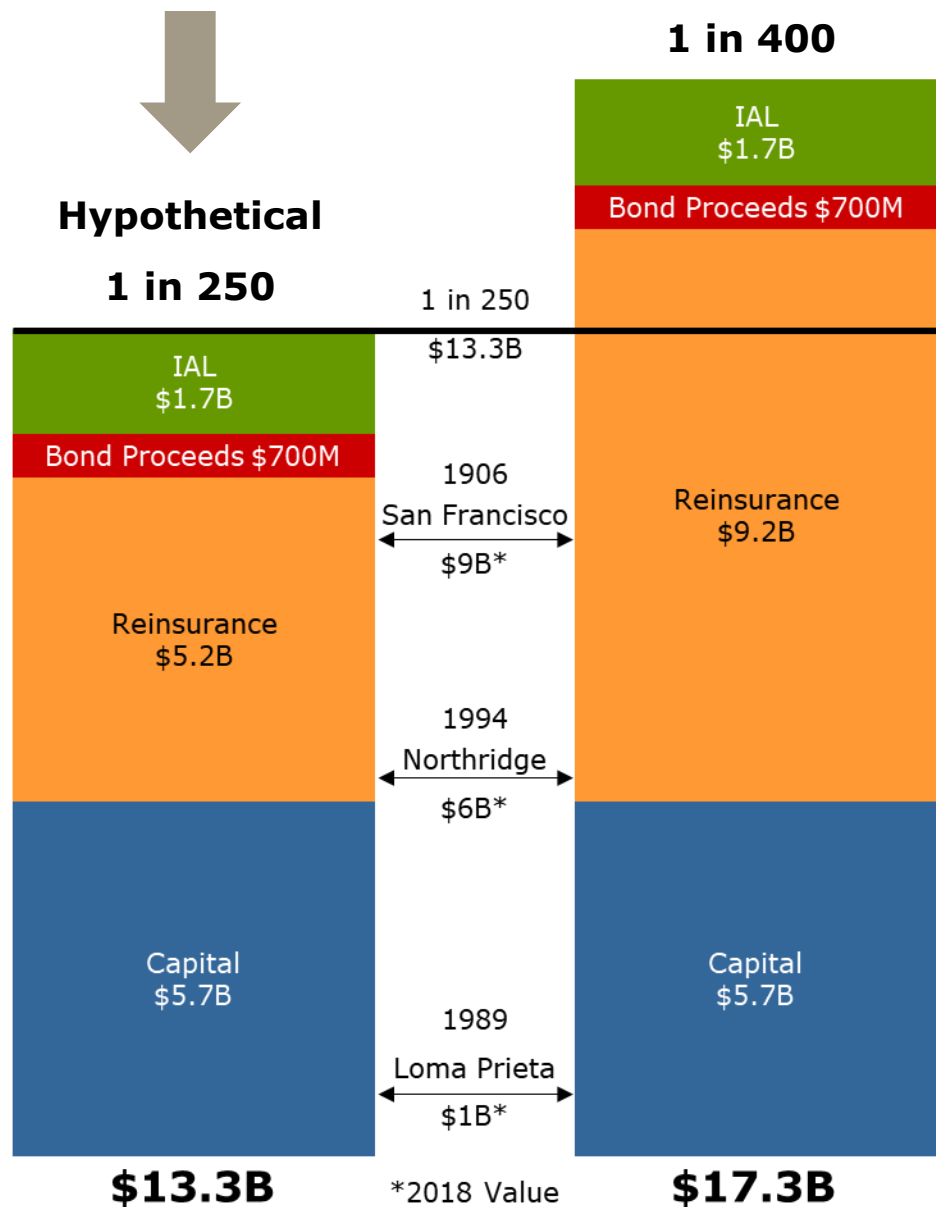


Most insurance companies that offer earthquake policies plan for a 1 in 250 year earthquake – an event so large there is only a **.4% probability** of it occurring.

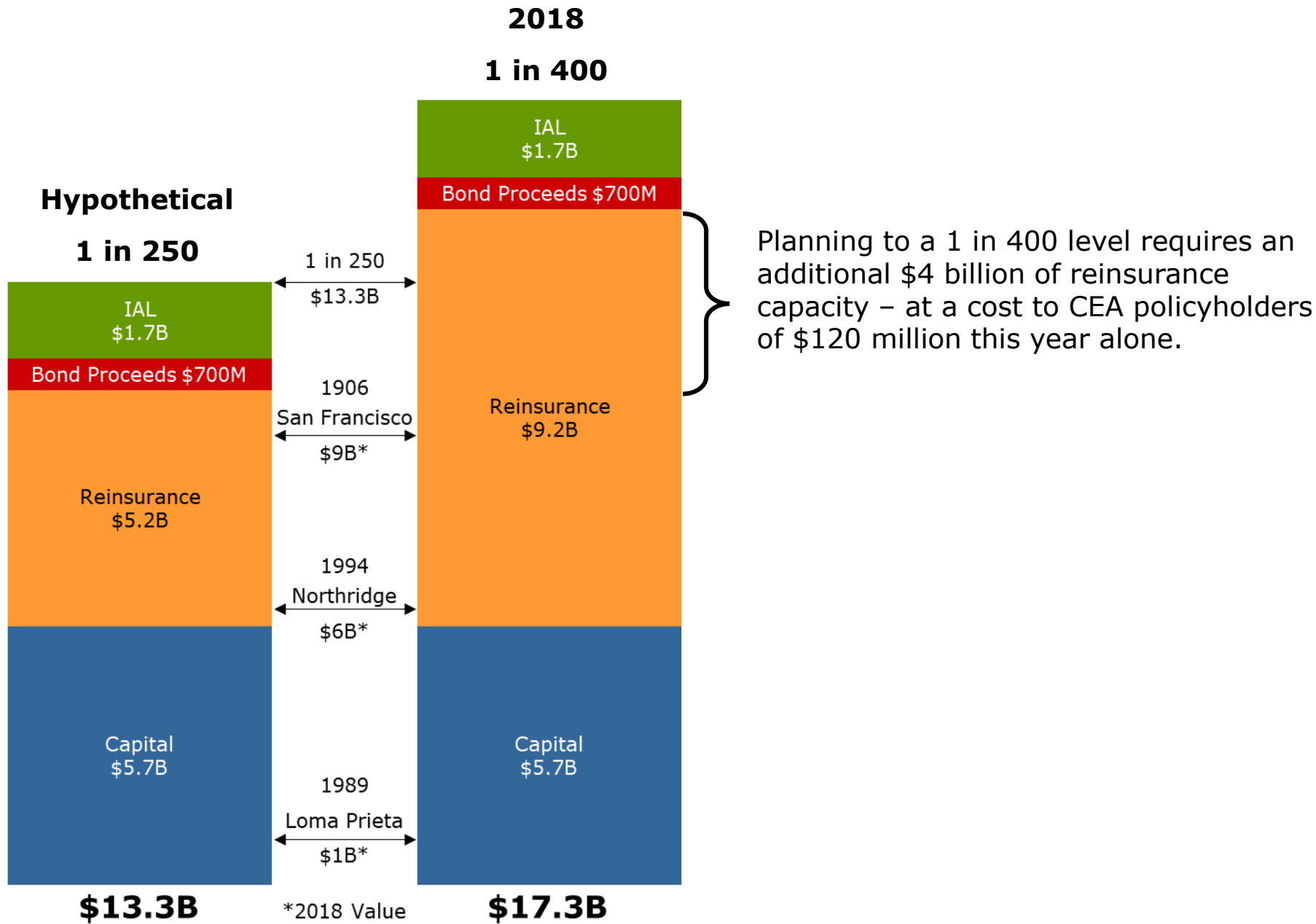
Because these companies are “multi-line”, if an extremely unlikely earthquake were to occur that is larger than planned for, they have other backstop resources from which to draw – such as:

- Surplus
- Owner’s Equity
- Capital Markets
- Other affiliated companies

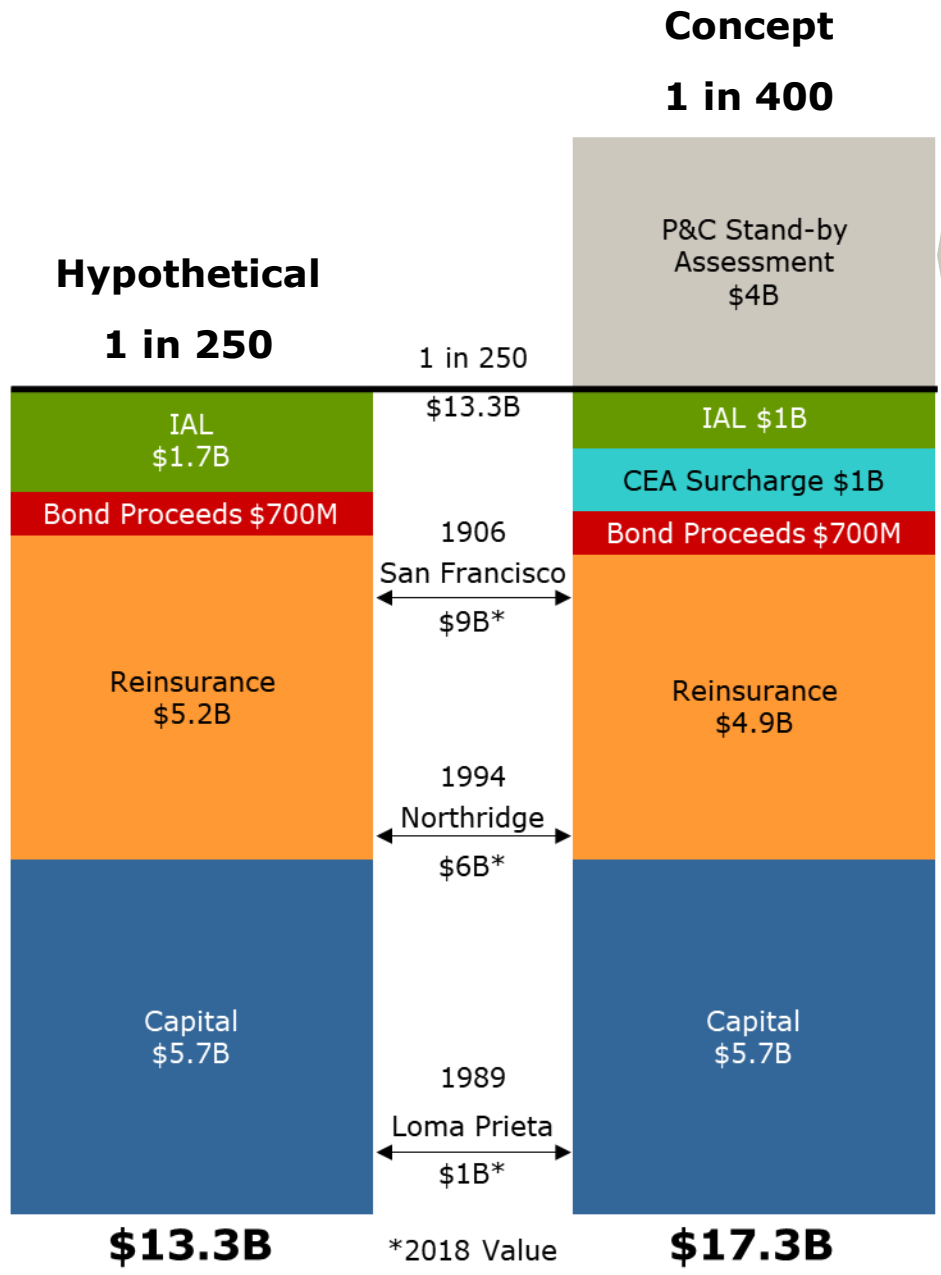
# If CEA planned for a 1 in 250 year level – it would look like this:



# Extra Reinsurance Capacity will Cost CEA \$120M this Year



# Concept: A Stand-by Financial Backstop for CEA



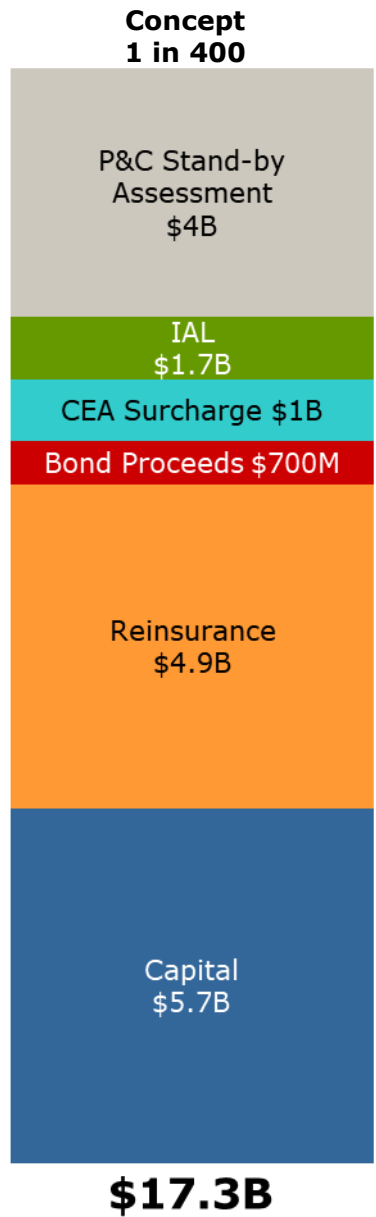
**If...** CEA losses exceed a 1 in 250 year event, an assessment would be triggered on all Property & Casualty\*\* insurance policies in California.

Maximum Assessment: 1% or 2%

Probability of Full Assessment: ¼ of 1%

\*\* Excludes Work Comp  
(P&C does not include Life and Health)

# Affordable Earthquake Insurance and a National Disaster Resiliency Fund



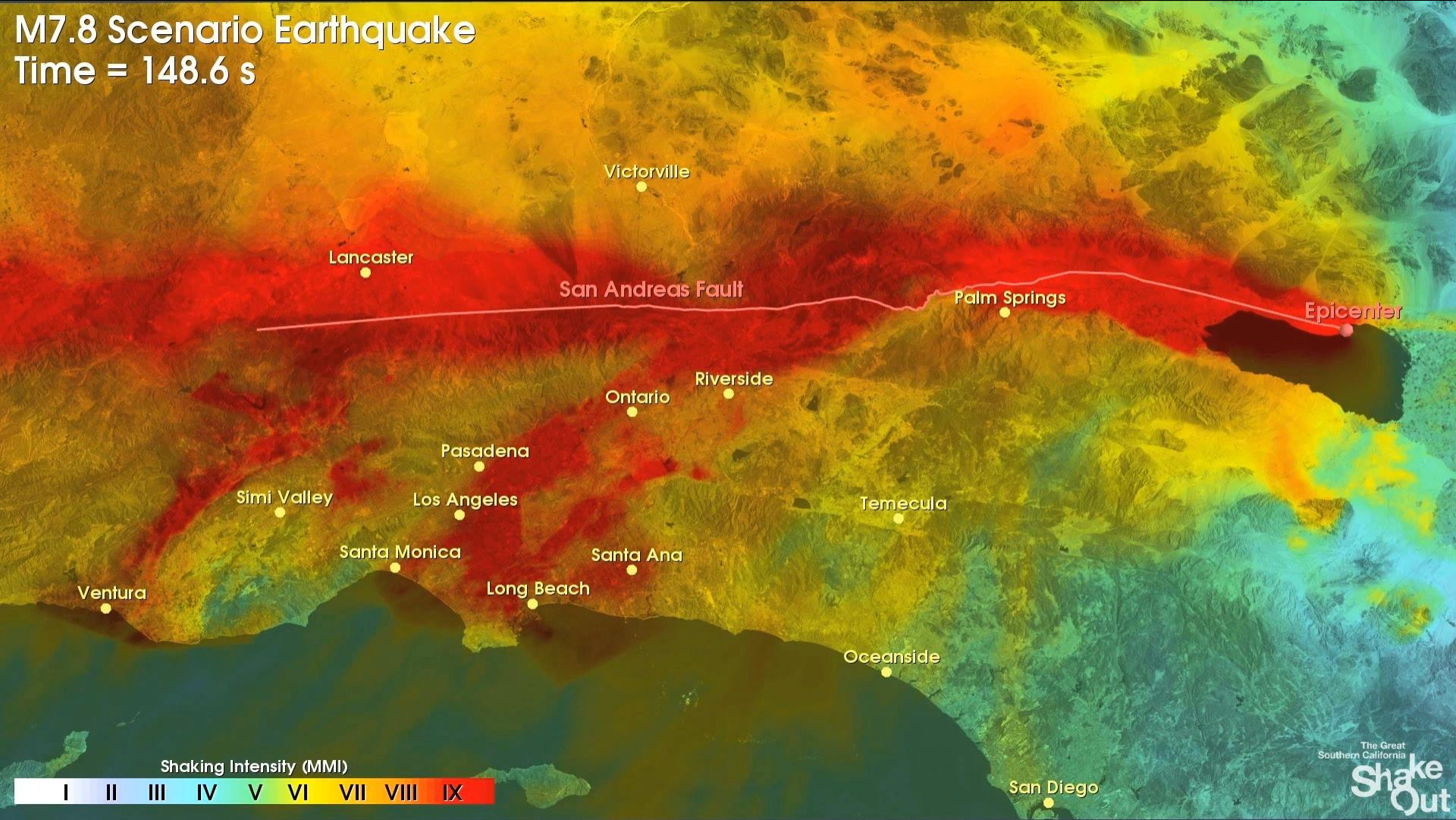
**Every year...** CEA’s reinsurance expenses would be reduced by \$100-\$200M per year.

A portion of the savings would be used to keep **CEA rates affordable** and **increase capital** to pay claims.

The other portion of the savings would fund the **Natural Disaster Resiliency Fund.**

# The Great ShakeOut Scenario: M7.8

M7.8 Scenario Earthquake  
Time = 148.6 s



**Would not trigger Stand-By Assessment**

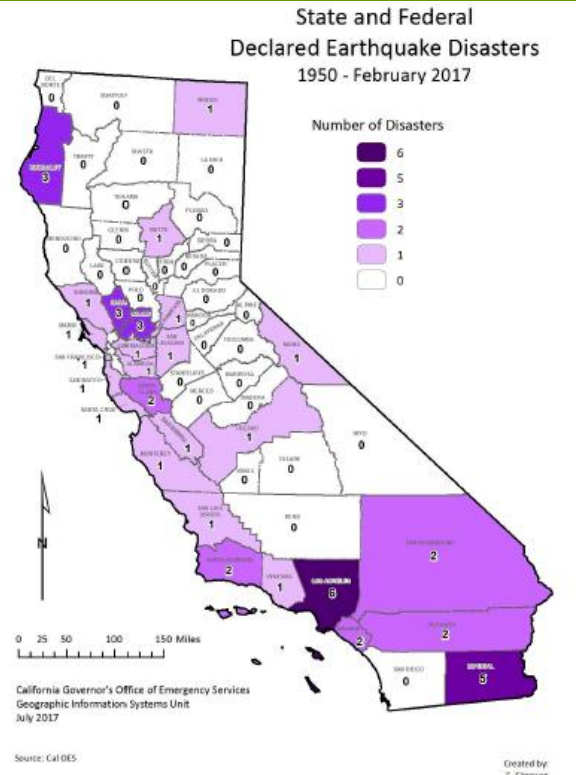
# California Natural Disaster Resiliency Fund

Ensuring that all Californians will withstand and thrive following natural disasters and adapt to current and future challenges, such as climate change.

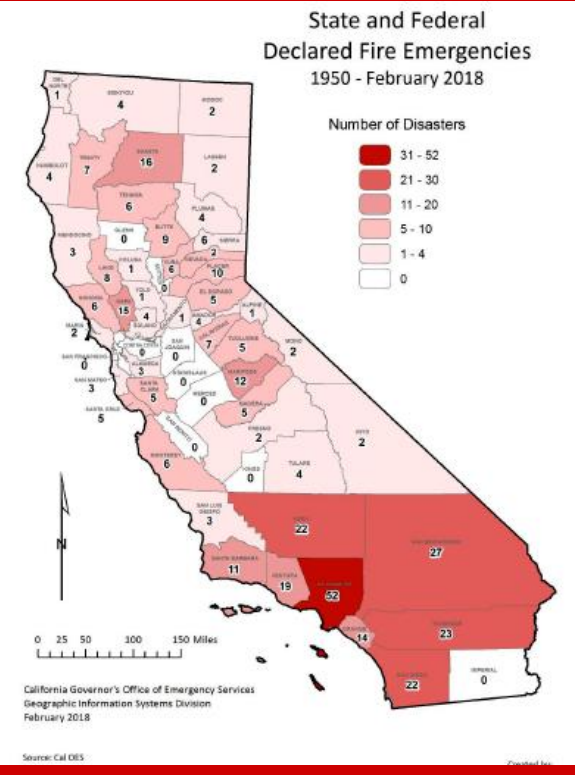


# Resiliency Fund: Focus on Natural Hazards throughout California

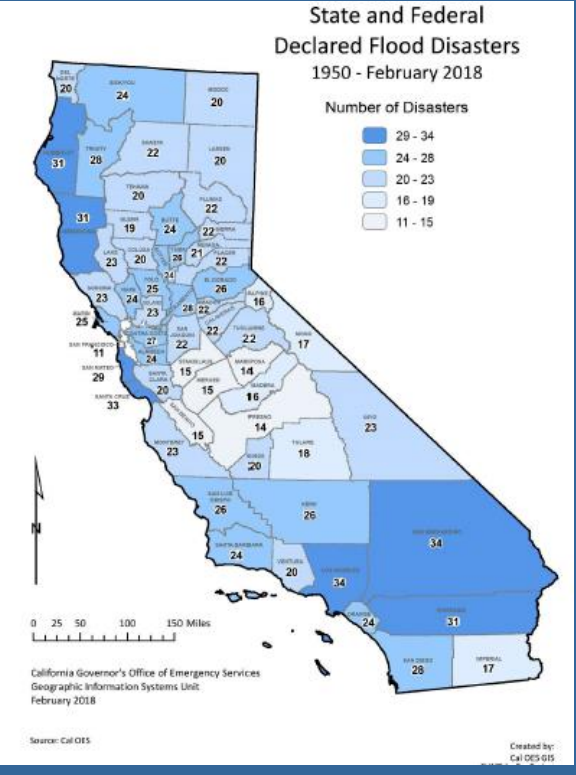
## Earthquake



## Wildfire



## Flood



# Resiliency Fund: Include Drought, Urban Heat, and Sea-Level Rise

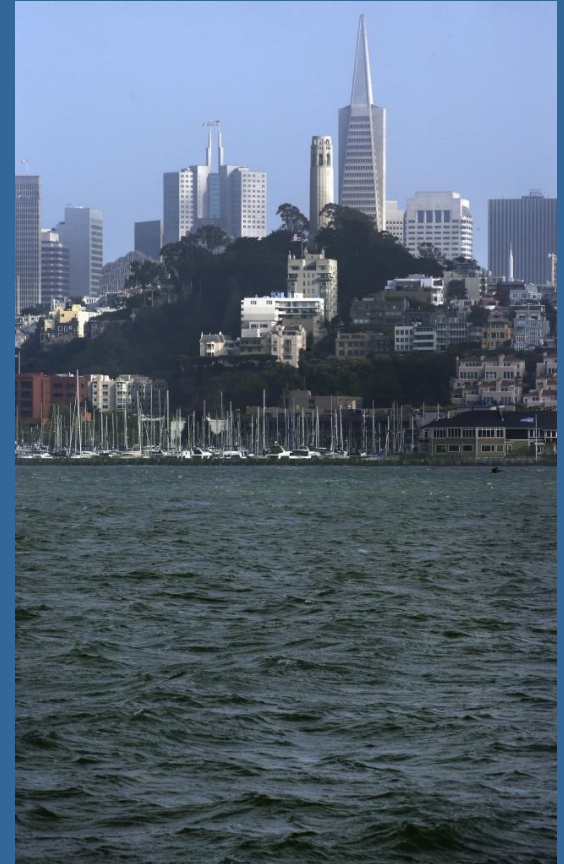
**Drought**



**Urban Heat**



**Sea-Level Rise**



# For Example: EarthquakeBraceBolt.com



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[Register](#)

[Login](#)



## EARTHQUAKE BRACE + BOLT

EBB surpasses 5,000 completed retrofits and the program is still growing!

Registration for EBB is currently closed. "Sign Up" for EBB updates to learn when the program will reopen.

[Sign Up](#)



### Homeowners

Is your house earthquake-ready? If an earthquake happened today, would your house stay on its foundation? You may qualify for up to \$3,000 toward a seismic retrofit of your house.

[Learn More »](#)



### Contractors

EBB encourages homeowners to use licensed contractors experienced in seismic retrofitting. EBB is free to contractors and to be included in the Contractor Directory all you have to do is take the online FEMA training provided.

[Learn More »](#)



### Building Departments

Building departments play a critical role in the success of EBB. They must confirm that a code-complaint retrofit was done in accordance with Appendix Chapter A3 or an approved standard plan set.

[Learn More »](#)



### Engineers

EBB was created to provide incentives to California homeowners to seismically retrofit wood-frame residential structures. An engineered solution is required for some retrofits.

[Learn More »](#)

## 5,000+ Homes Retrofitted since launch in 2014

# Potential Resiliency Fund Investments

## Earthquake



Retrofit seismically vulnerable housing



Evaluations and inventories of seismically vulnerable community buildings

Above ground auxiliary water supply systems to fight post-earthquake fires



## Wildfire



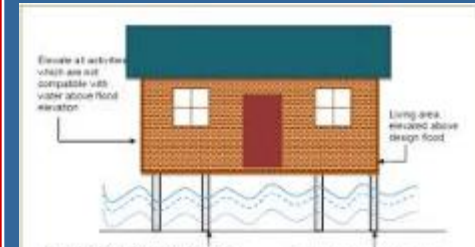
Rooftop sprinkler systems

Defensible space zones



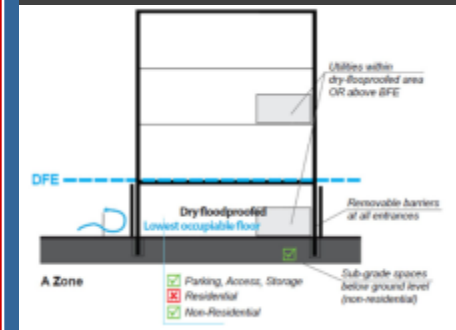
Underground power lines

## Flood



Elevate flood-prone structures

Dry floodproof structures



Heighten or strengthen levees and other community flood protection systems

“It’s time for **courage**, it’s time for **creativity** and it’s time for **boldness** to tackle climate change... The risk is real, the cost is huge and growing, and therefore taking a sequence of **realistic steps** just makes sense, and that’s what we’re going to do in **California**.”

- California Governor Edmund G. Brown Jr.

**How can we help you?**